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## Financial institution analysis in an evolving environment: the case of the Hong Leong Bank BHD

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## Abstract

Return on equity analysis provides a system for planning as well as analyzing financial institution performance. In the case of Malaysia, Bank Negara Malaysia has successfully implemented a merger program for Malaysian banks in order to face the onslaught of the imminent financial deregulation brought about by globalization. The purpose of this paper is to provide additional insights into the improvement of a bank's financial situation, i.e. commercial banks, because of the recent series of bank mergers in Malaysia. This paper also presents an application of a model for financial analysis of a bank based on the DuPont system presented in Saunders (2000). Bank return on equity is decomposed into net profit margin, total asset turnover and the equity multiplier. This model is applied to the Hong Leong Bank Berhad. Hong Leong Bank is one of the ten anchor banks in Malaysia that must satisfy the requirement of having a minimum RM2 billion shareholders' fund and a minimum total assets of RM25 billion.

## Disciplines

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# Financial Institution Analysis In An Evolving Environment: The Case Of The Hong Leong Bank BHD

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## Abstract

*Return on equity analysis provides a system for planning as well as analyzing financial institution performance. In the case of Malaysia, Bank Negara Malaysia has successfully implemented a merger program for Malaysian banks in order to face the onslaught of the imminent financial deregulation brought about by globalization. The purpose of this paper is to provide additional insights into the improvement of a bank's financial situation, i.e. commercial banks, because of the recent series of bank mergers in Malaysia. This paper also presents an application of a model for financial analysis of a bank based on the DuPont system presented in Saunders (2000). Bank return on equity is decomposed into net profit margin, total asset turnover and the equity multiplier. This model is applied to the Hong Leong Bank Berhad. Hong Leong Bank is one of the ten anchor banks in Malaysia that must satisfy the requirement of having a minimum RM2 billion shareholders' fund and a minimum total assets of RM25 billion.<sup>1</sup>*

## Introduction

Corporate financial management [Modigliani and Miller, 1958] can be defined as the efficient acquisition and allocation of funds. The objective of corporate financial management is to maximize owner wealth [Copeland and Weston, 1979] [Martin et.al, 1988] in the firm. The value of the firm is determined by the risk and return characteristics of the firm. The risk and return characteristics of a firm are determined by the decisions made by the corporate financial managers. The decisions made by corporate financial managers fall into one of two categories, namely investment decisions and financing decisions. Dividend decisions [Modigliani, 1982] are hybrid decisions. The dividend decision involves the allocation of funds but is not an investment decision and affects the financing of the firm but is not a financing decision.

Investment decisions determine the left-hand side of the balance sheet through asset purchases. Investment decisions determine the nature of the assets of the firm and the industry as well as the degree of operating leverage of the firm. Financing decisions determine the right-hand side of the balance sheet, the financial structure of the firm, through debt and equity security issues and retained earnings. Financing decisions determine the capital structure of the firm and the degree of financial leverage.

The effects of the decisions made by corporate financial managers determine the future cash flows of the firm. Based on these decisions, a corporate financial manager can estimate the probability distribution of future cash flows – both the expected value and the standard deviation of the future cash flows. Using these estimates of future cash flows, a decision maker can calculate the value of the firm and analyze the impact of changes on the value of the firm. Assuming that cash flows are no growth perpetuities, the value of the firm is the expected cash flow divided by the required rate of return.

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<sup>1</sup> All the financial institutions involved in the merger program finally signed sale and purchase agreements no later than 31<sup>st</sup> August 2000.

Decision makers estimate the probability distribution of future cash flows based on accounting information provided by the financial managers. To be useful, accounting information must influence decisions. Beaver, Kennelly and Voss [1968] argue that accounting information is useful if the information has predictive ability. Managerial accounting information is available to corporate insiders and includes material, non-public information. Individuals who have access to material, non-public information such as commercial loan officers, investment bankers, attorneys, and auditors are constructive 'insiders'. Because of access to inside information, these individuals are *de facto* insiders. The sub-set of information that is provided to external decision makers constitutes financial accounting information. External decision makers include customers, suppliers, bondholders, and stockholders. Each group must determine whether to provide credit, and buy, sell, or hold debt or equity of the firm.

Bank managers follow the same model as corporate financial managers, except that the product is different. Banks provide lending services. The stock price of a bank is also determined by the risk and return characteristics of the bank. The risk and return characteristics of the bank are determined by the decisions made by the bank managers. Bank asset investment decisions determine the portfolio of loans and other assets held by the bank. Bank financing decisions determine the capital structure of the bank. A financial analyst determines the prices of a share of bank stock from the estimated probability distribution of future cash flows based on the financial information provided in the financial statements of the bank.

Bank stock price is influenced by environmental factors such as current economic conditions, market demand, the political environment, and the legal environment [Fraser, Gup, and Kolari, 2001]. The legal and political environments determine the regulatory environment and public confidence in the banking structure. Economic conditions and market demand influence the banks market share. These are external environmental factors over which bank managers have no control. Bank planning, the use of technology, personnel development, and bank condition are internal performance factors over which bank managers do have control. These factors are controlled by investment and financing decisions that maximize the value of the firm. The goal of financial information reporting is to insure that complete information is provided to external decision makers who can properly value the firm.

### **A History of Hong Leong Bank BHD**

The story of Hong Leong Bank Berhad (HLBB, hereafter) began in 1905 in Kuching, Sarawak under the name of Kwong Lee Mortgage & Remittance Company. HLBB was founded by Mr. Lam Ting Yeu to meet the needs of the local business community and the growth in the population, trade and production of commodities. The company granted loans against the security of export commodities like pepper, rubber and other indigenous products. HLBB also provided the services of remitting money of immigrant Chinese to their families in the Southeast region of China.

Kwong Lee Mortgage & Remittance Company survived through a difficult period of economic crises; such as First World War in 1914, the Post-war Recession of 1920 – 1921 and the Great Depression (1929 – 1933). This is because of strong cash reserves and a conservative operational policy. Immediately after the Great Depression, on 26<sup>th</sup> October 1934, the company was incorporated as a private limited company under the name Kwong Lee Bank. From four banking offices in Sarawak and one in Singapore, the Bank expanded its operation to Peninsular Malaysia when it opened its first branch in Kuala Lumpur in May 1978. Another branch was opened in Johor Bahru during the same month.

Kwong Lee Bank Berhad was acquired by the MUI Group in May 1982 and renamed Malayan United Bank Berhad on 2<sup>nd</sup> February 1983. Later it was renamed MUI Bank Bhd. Under the MUI banner the Bank grew from 11 branches (including Singapore) to 35 branches. On 3<sup>rd</sup> January 1994, the Hong Leong Group Malaysia acquired MUI Bank Berhad through Hong Leong Credit Berhad and renamed it as Hong Leong Bank Berhad (HLBB). HLBB was listed on the Kuala Lumpur Stock Exchange on 17<sup>th</sup> October 1994 with its total paid-up capital enlarged to RM 470 million. Since then, the growth of the Bank has been remarkable. HLBB is principally engaged in commercial banking business and in the provision of related services, which also include Islamic Banking services. Its subsidiary companies are primarily involved in licensed finance company businesses, leasing and hire purchase activities, real property investment, real property developments and nominee services. In 2003, a new subsidiary, HLB Trade services (Hong Kong) Limited, was incorporated to undertake trade finance activities.

The consolidation of the banking institution to meet the requirements of Bank Negara Malaysia marks another milestone for HLBB. The completion of the merger of Hong Leong Bank with Wah Tat Bank and Hong Leong Finance with Credit Corporation Malaysia on 1<sup>st</sup> January 2001 marks the emergence of a larger banking group. As at 31<sup>st</sup> August 2003, HLBB has a network of 143 bank branches and 27 finance branches and 9 In-Stores in the country and one bank branch in Singapore. As 2004, HLBB has an authorized capital of RM3 billion and paid-up capital share capital more than RM1.57 billion. The Executive Chairman of the Bank, Tan Sri Quek Leng Chan held 67.04% of the total shares that were valued at RM960.84 million.

Hong Leong Bank Berhad continues to grow in order to reach out further to its customers. As one of the 10 anchor banks in Malaysia, HLBB is able to face the challenges of the new millennium. HLBB is a member of the Hong Leong Group (The Group). The Group has diversified businesses in financial services, manufacturing, property development, and infrastructure development. The Group is also represented in various businesses in Hong Kong, Philippines, Singapore, United Kingdom, and the USA as well as Australia and New Zealand. In other words, the Group is poised to participate actively in businesses worldwide.

### **A Financial Analysis Model For Financial Institutions**

A model of financial analysis for financial institutions based on the DuPont system of financial analysis return on equity model is provided by Saunders [2000]. The DuPont formula shows that the rate of return on assets can be found as the product of the profit margin times the total assets turnover. The DuPont system implies that the return on equity model disaggregates performance into three components: net profit margin, total asset turnover, and the equity multiplier. The profit margin allows the financial analyst to evaluate the income statement and the components of the income statement. Total asset turnover allows the financial analyst to evaluate the left-hand side of the balance sheet: assets. The equity multiplier allows the financial analyst to evaluate the right-hand side of balance sheet: liabilities and owners equity.

Return on equity analysis provides a system for planning as well as analyzing financial institution performance. The profit margin ratio allows the analyst to develop a *pro forma* income statement. That is, net income is equal to revenues less expenses. Thus, the financial planner can determine the revenue level necessary to achieve the net income target. The total asset turnover ratio allows the analyst to project the total asset level necessary to generate the projected revenue level. The total asset requirement can be used to project the *pro forma* levels of all of the assets accounts. The fundamental equation of accounting is that assets minus liabilities equals owners' equity. Thus, the equity multiplier ratio can be used to project the *pro forma* financial needs and the financial structure of the financial institution.

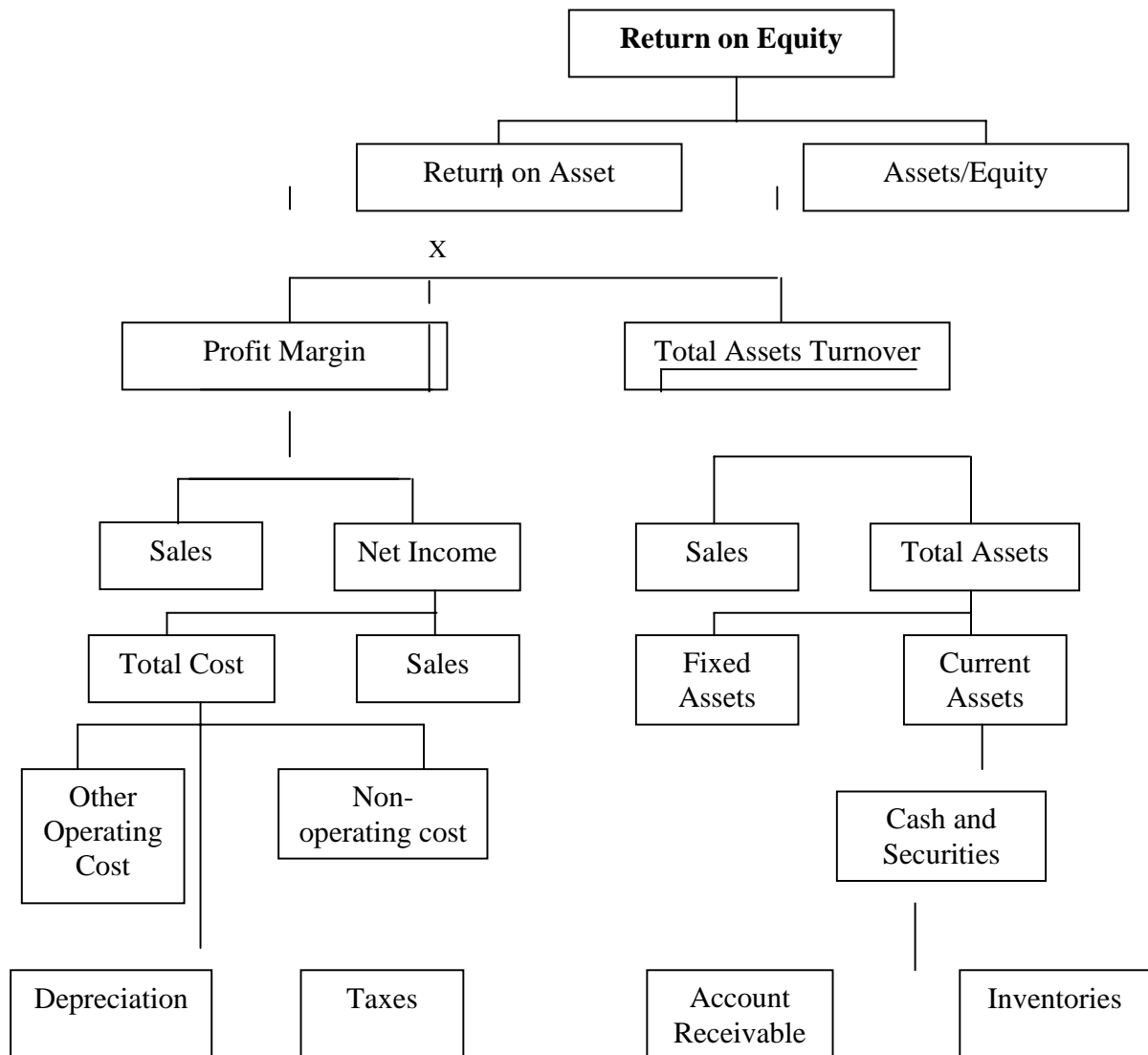
The bank decision maker can use the return on equity model to project financial needs and the external financial analyst can be use the return on equity model to evaluate the performance of the financial institution. The DuPont system can be understood as shown in Figure 1.

Return on equity, ROE, is first decomposed into return on assets, ROA, and the equity multiplier, EM. Return on assets is decomposed into net profit margin and total asset turnover.

$$\begin{aligned} \text{ROE} &= (\text{ROA}) (\text{EM}), \\ \text{ROA} &= (\text{NPM}) (\text{TATO}) \end{aligned}$$

where;

Figure 1 The DuPont Analysis Chart



Source: Brigham and Houston, 1998.

ROE = return on equity  
 ROA = return on asset  
 EM = the equity multiplier  
 NPM = net profit margin  
 TATO = total asset turnover

Return on equity is net income divided by total equity capital and return on assets is net income divided by total asset. The equity multiplier is the ratio of total assets and total equity capital.

$$\text{ROE} = (\text{NI}) / (\text{TEC})$$

$$\text{ROA} = (\text{NI}) / (\text{TA})$$

$$\text{EM} = (\text{TA}) / (\text{TEC})$$

where;

NI = net income

TEC = total equity capital

TA = total asset

Net profit margin can be decomposed into both the income and expense components. Total asset turnover can be decomposed into interest and no-interest income components.

The net profit margin ratio can be used to develop a pro forma income statement. The total asset turnover ratio can be used to estimate the pro forma right-hand side of the balance sheet. The equity multiplier ratio can be used to estimate the *pro forma* left-hand side of the balance sheet. Thus, the DuPont system of financial analysis can be used to construct a financial plan for the bank. The DuPont system of financial analysis provides a means for the firm to monitor performance through the planning period and to post-audit the planning process.

### Financial Analysis Of Hong Leong Bank – Balance Sheet Items

HLBB has six major categories of assets – cash and short-term funds, deposits and placements with financial institutions, securities, loans and financing, investment in subsidiary companies and fixed/other assets. Cash and short-term funds have increased steadily during economic recession in 1998 from RM1.21 billion to RM5.65 billion in 2002, but have decreased in 2003 at RM46.15 billion. As shown in Table 2 and Table 3a, the categories of other assets have followed the same pattern as they fluctuated within a small range from 1998 to 2003. On the average, loans and financing accounted 55.01% from the amount of total assets. However, this category has fallen from the peak of RM9.27 billion (or 72.32%) in 1998 to RM13.4 billion (or 47.03%) in 2003. The deposits and placements with financial institutions have their high of RM2.37 billion in 2002 and low at RM22.39 million in 1998. Both dealing and investment securities have their peak at RM5.91 billion in 2003 and RM1.31 billion in 1998, respectively. Investment in subsidiary companies only has fallen from a peak level of RM391.6 million in 1998 to a level of RM363.84 million in 2000. Finally, fixed assets have increased from RM6.56 million in 1998 to RM157.6 million in year 2003.

HLBB has six major liability accounts – deposits from customers, deposits and placements of banks and financial institutions, obligations on securities in the repurchase agreements, bills and acceptable payable, other liabilities and shareholders' funds. From Table 3a, deposits from customers have contributed about 77.05% of total liability and shareholders' funds. Deposits from customers were relatively stable since the difference between the peak level in 1998 and low level in 2001 is only about 18.9%. Deposits and placements of banks and financial institutions ranged from a high of RM 2.15 billion in 2001 and a low of RM 245.63 million in 1999. In year 2003, obligations on securities in the repurchase agreements have increased to RM1.51 billion, as bills and acceptable payable have reached the amount of RM1.18 billion. Meanwhile, shareholders' funds were highest in year 2003 at RM3.33 billion and reached a low level of RM577.2 million in 1998.

### Financial Analysis Of Hong Leong Bank - Income Statement Items

HLBB has three major sources of income – interest income, income from Islamic Banking Operations and non-interest income. Gross interest income was relatively stable, as it has increased steadily from RM1.18 billion in 1998 to RM1.2 billion in 2003. Income from Islamic Banking operations was negative in 1999 but continue to increase to its peak level of RM18.8 million by 2003. Non-interest income also have shown increasing trend of RM107.75 million in 1998 until the highest level of RM789.03 million in 2003.

HLBB expense items fall into four categories – interest expense, provisions for bad loans and financing loss, overhead expenses, and taxation. Interest expense has fallen from RM736.23 million in 1998 to RM587.46 million in 2003. Provisions for bad loans and financing loss item also have decreased steadily from a high of RM254.9 million in 2000 to a low of RM162.8 in 2003. However, overhead expenses have been increased with RM138.2 million from RM187.68 million in 1998 to RM325.88 million by 2003.

### **Discussion Of Financial Ratios**

As a percent of total assets, cash and short-term funds average 17.27% with a high of 21.3% in 2002 and a low of 9.44% in 1998. Deposits and placements with financial institutions average 5.16% of total assets with a high of 8.94% in 2002 and a low of 0.17% in 1998. Both dealing and investment securities average 12.36% and 4.63% of total assets with a high of 20.76% in 2003 and 10.23% in 1998; and a low of 3.69% in 1998 and 1.74% in 2001, respectively. Loans, advances and financing have the highest average at 55.01% of total assets with a high of 72.32% in 1998 and a low of 47.03% by 2003. Investment in subsidiary companies averages 2.56% as a percent of total assets, with a high of 3.06% in 1998 and a low of 1.97% in 2000. Fixed and other assets have a high of 0.71% in 1999 and 1.28% in 2002; as their low are 0.05% in 1998 and 0.95% in 2001.

As a percent of total liabilities and shareholders' funds, deposits from customers average the highest of 77.05% with a high of 88.74% in 1998 and a low 69.84% in 2001. Shareholders' funds average 9.56% of total liabilities and shareholders' funds with a high of 11.69% in 2003 and a low of 5% in 1998.

The two largest expense items are interest and overhead expense; with 42.5% and 17.16% of expenses for each item. Provisions for bad loans and financing loss represents 14.38% and taxation represents 7.19%. Profit margin represents the remaining non-income item at 18.76%. Interest income averages at 5.78% of total assets and non-interest income averages at 1.49% of total assets.

### **Dupont Analysis Of Hong Leong Bank**

Return on equity (ROE) for HLBB for the study period averages 12.88% but with a range from 7.7% in 1999 and 20.06% in 2003. Return on assets is lower, 1.26% average, with a range from 0.45% in 1998 and 2.35% in 2003. The equity multiplier averages 11.69 times with a range from 8.55 in 2003 to 22.2 in 1998. The profit margin averages 18.76% with a range of 4.49% to 33.29%. Total asset turnover averages 7.28% with a range from 5.28% to 10.06%.

Return on equity volatility results from significant variability in all three input variables – profit margin, total assets turnover, and the equity multiplier. The equity multiplier has decreased significantly from 22.2 times in 1998 to 8.55 times in 2003. Return on asset has the least variability with a range of 1.9%. Profit margin has the greatest variability with a range of 28.8%. The figures show that the volatility in return on equity primarily results from the volatility of profit margin. The most significant effect in profit margin occurs after year 1999 since the merger programme has been completed by year 2000.

Table 5 shows selected data for HLBB over the period 1998 to 2003. Total trading volume has fluctuated over the study period from a low of 9.778 million units in 1998 to a high of 23.624 million units in 2002. The value ranges from a high RM123.727 million in 2002 to a low RM11.836 million in 1998. The economic crises in 1998 caused this same significant effect in trading volume and value of HLBB shares. Price to book value (P/BV) value has fluctuated with a high 2.63 in 2002 and a low of 0.46 in 1998. Price earning (P/E) ratio has shown significant difference with a high of 78.57 in 1999 compared to a low of 2.82 in 1998. The dividend yield is in the peak level during the economic crises in 1998 with 6.82%, as a low level of 0.91% in 1999. Table 4 presents selected data for the Malaysian economy over the discussion period. To conclude, the DuPont system of financial analysis have shown that the consolidation of HLBB have a positive impact to the Bank's performance even in its teething stage.

### **Summary And Conclusions**

Return on equity analysis provides a system for planning as well as analyzing financial institution performance. In the case of Malaysian, Bank Negara Malaysia has successfully implemented a merger program for



Malaysian banks in order to face the onslaught of the imminent financial deregulation brought about by globalization. The purpose of this paper is to provide additional insights into the improvement of a bank's financial situation, i.e. commercial banks, due to the recent series of bank mergers in Malaysia. This paper also presents an application of the model for the financial analysis of a bank based on the DuPont system of financial analysis presented in Saunders (2000). Bank return on equity is decomposed into net profit margin, total asset turnover and the equity multiplier. This model is applied to the Hong Leong Bank Berhad which is one of the ten anchor banks in Malaysia that must satisfy the requirement of having a minimum RM2 billion shareholders fund and a minimum total assets of RM25 billion.<sup>2</sup>

**Table 1: Hong Leong Bank Berhad Selected Financial Information - Income Statement  
for the financial year ended June 30, 1998 to June 30, 2003 RM '000**

<b>Income Statement - Income</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Interest Income	1181055	1134611	914731	1102556	1141043	1201133
Income from Islamic Banking Operations	NA	-495	3707	4310	8579	18788
Non-Interest Income	107748	152284	205735	551678	252379	789032

<b>Income Statement - Expenses</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Interest Expenses	736225	706716	443023	559271	568571	587462
Provisions for Bad Loans & Financing Loss	239280	135257	254903	232321	174347	162834
Overhead Expenses	187680	232711	187341	269904	296563	325881
taxation	67790	91254	7868	173119	91642	263952
Net Income	57828	120462	231038	423929	270878	668824

Operating Income	1288803	1286400	1124173	1658544	1402001	2008953
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Earnings per share (Adjusted)	0.39	0.07	0.62	0.28	0.28	0.35
Dividends per share (Adjusted)	0.08	0.05	0.11	0.14	0.13	0.11
Price (RM)	1.1	5.5	6.1	3.64	5.35	4.62
Price per Earning Ratio	2.82	78.57	9.84	13.00	19.11	13.20

<sup>2</sup> All the financial institutions involved in the merger program finally signed sale and purchase agreements no later than 31<sup>st</sup> August 2000.

**Table 2: Hong Leong Bank Berhad Selected Financial Information – Balance Sheet****As at June 30, 1998 to June 30, 2003 RM '000**

<b>Balance Sheet - Assets</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Cash and short-term funds	1210086	2621036	3585513	4926632	5653019	4615488
Deposits & placements with financial inst.	22385	552395	1026689	1622100	2373347	1722498
Dealing securities	473061	841889	2256370	4359502	3786352	5918395
Investment securities	1310451	935278	543239	430425	518772	1347429
Loans, advances and financing	9267432	9181693	10072517	11900484	12544988	13406545
Other assets	132210	175979	215901	235805	340423	178478
Statutory deposit with BNM	0	316019	335700	373500	381178	375350
Investment in subsidiary companies	391596	363842	363842	700841	695841	698841
Fixed assets	6560	106552	106385	152248	162640	157588
Deferred tax assets	0	0	0	0	82403	83718
<b>Total Assets</b>	<b>12813781</b>	<b>15094683</b>	<b>18506156</b>	<b>24701537</b>	<b>26538963</b>	<b>28504330</b>

<b>Balance Sheet - Liabilities</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Deposits from customers	10252346	11868588	14196287	17251650	19237072	21628636
Deposits & placements of banks / fin. inst.	362665	245625	509859	2151332	913092	607003
Obligations on sec.- repurchase agreemnts	0	0	862494	1081141	1947244	1510639
Bills & acceptance payable	0	886974	740819	1113895	1399144	1181771
Amounts due to Cagamas	0	0	0	0	30054	27095
Other liabilities	360843	328695	267164	227232	193450	202418
Provision for taxation	0	0	0	0	14085	19254
Subordinate bonds	0	200000	200000	298843	0	0
Shareholders' Funds	577171	1564801	1729533	2577444	2798257	3334079
<b>Total L&amp;SF</b>	<b>11553025</b>	<b>15094683</b>	<b>18506156</b>	<b>24701537</b>	<b>26532398</b>	<b>28510895</b>

Table 3a: Hong Leong Bank Berhad Selected Ratios (in percent, %)

<b>Balance Sheet - Assets</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>Average</b>
Cash and short-term funds	9.44	17.36	19.37	19.94	21.30	16.19	17.27
Deposits & placements with financial inst.	0.17	3.66	5.55	6.57	8.94	6.04	5.16
Dealing securities	3.69	5.58	12.19	17.65	14.27	20.76	12.36
Investment securities	10.23	6.20	2.94	1.74	1.95	4.73	4.63
Loans, advances and financing	72.32	60.83	54.43	48.18	47.27	47.03	55.01
Other assets	1.03	1.17	1.17	0.95	1.28	0.63	1.04
Statutory deposit with BNM	0.00	2.09	1.81	1.51	1.44	1.32	1.36
Investment in subsidiary companies	3.06	2.41	1.97	2.84	2.62	2.45	2.56
Fixed assets	0.05	0.71	0.57	0.62	0.61	0.55	0.52
Deferred tax assets	0.00	0.00	0.00	0.00	0.31	0.29	0.10
<b>Total Assets</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.00</b>
<b>Balance Sheet - Liabilities</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>Average</b>
Deposits from customers	88.74	78.63	76.71	69.84	72.50	75.86	77.05
Deposits & placements of banks / fin. inst.	3.14	1.63	2.76	8.71	3.44	2.13	3.63
Obligations on sec.- repurchase agreemnts	0.00	0.00	4.66	4.38	7.34	5.30	3.61
Bills & acceptance payable	0.00	5.88	4.00	4.51	5.27	4.14	3.97
Amounts due to Cagamas	0.00	0.00	0.00	0.00	0.11	0.10	0.03
Other liabilities	3.12	2.18	1.44	0.92	0.73	0.71	1.52
Provision for taxation	0.00	0.00	0.00	0.00	0.05	0.07	0.02
Subordinate bonds	0.00	1.32	1.08	1.21	0.00	0.00	0.60
Shareholders' Funds	5.00	10.37	9.35	10.43	10.55	11.69	9.56
<b>Total L&amp;SF</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>Income Statement Items</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>Avg</b>
Interest Expenses	3.19	2.62	1.35	1.33	1.24	1.17	1.82
Provisions for Bad Loans & Financing Loss	1.04	0.50	0.78	0.55	0.38	0.32	0.60
Overhead Expenses	0.81	0.86	0.57	0.64	0.65	0.65	0.70
Taxation	0.29	0.34	0.02	0.41	0.20	0.53	0.30
Profit Margin	0.25	0.45	0.71	1.01	0.59	1.33	0.72
<b>Total - Income Statement</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>7.19</b>
Interest Income / Total Assets	9.22	7.52	4.94	4.46	4.30	4.21	5.78
Non-interest Income / Total Assets	0.84	1.01	1.11	2.23	0.95	2.77	1.49

Table 3b: Hong Leong Bank Berhad Selected Ratios (in percent, %, unless noted)

Du Pont Ratios	1998	1999	2000	2001	2002	2003	Avg
Return on Equity (ROE)	10.02	7.70	13.36	16.45	9.68	20.06	12.88
Return on Assets (ROA)	0.45	0.80	1.25	1.72	1.02	2.35	1.26
Profit Margin (PM)	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Assets Utilization (TAT)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity Multiplier (EM)	22.20	9.65	10.70	9.58	9.48	8.55	11.69

Key Ratios	1998	1999	2000	2001	2002	2003	Average
Current Ratio	0.28	0.38	0.45	0.52	0.52	0.55	0.45
Equity Ratio	0.05	0.10	0.09	0.10	0.11	0.12	0.10

Per Share Statistics	1998	1999	2000	2001	2002	2003	Average
Price (RM)	1.1	5.5	6.1	3.64	5.35	4.62	4.39
Earnings	0.39	0.07	0.62	0.28	0.28	0.35	0.33
Assets	1.31	1.06	8.52	0.36	1.12	1.5	2.33
Book Value	2.39	2.91	4.27	2.03	2.03	2.37	2.67

Valuation	1998	1999	2000	2001	2002	2003	Average
P/E	2.82	78.57	13.71	13	19.11	13.13	23.39
P/Assets	0.84	5.19	0.72	10.11	4.78	3.08	4.12
P/BV	0.46	1.89	1.43	1.79	2.63	1.95	1.69

Table 4: Selected Data on Malaysian Economy

Year	1998	1999	2000	2001	2002	2003
GDP/Cap (RM '000)	70271	81373	88361	83785	95694	107603
RM	3.8	3.8	3.8	3.8	3.8	3.8
Inflation Rate (CPI)	95.8	98.5	100.1	101.4	103.2	104.8

Table 5: Hong Leong Bank Berhad Selected Data as at 30 June

Year	1998	1999	2000	2001	2002	2003
Stock price (RM)	1	5.5	6.1	3.64	5.35	4.62
Volume ('000 units)	9778	13011	2173	8925	23624	18955
Value (RM '000)	11836	65973	13897	31247	123727	85293
Adjusted EPS (RM)	0.39	0.07	0.62	0.28	0.28	0.35
P/BV ratio	0.46	1.89	1.43	1.79	2.63	1.95
Adjusted PE ratio	2.82	78.57	13.71	13	19.11	13.13
Dividend yield (%)	6.82	0.91	1.76	3.71	2.52	2.38
NTAB per share (RM)	2.37	2.87	5.95	2.03	2.03	2.37
Market capitalization (RM)	1373666904	1396753881	3520757	5198156	7664285	6629270
Listed shares/capital ('000 units)	577170968	577171025	577173	1428065	1432577	1434907

Source: Investor Digest Journal – various issues

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